

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 IO-13 L-03 H-01 NEA-10 PRS-01
PA-01 AID-05 CIAE-00 COME-00 EB-07 FRB-03 INR-07
NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 LAB-04
EPG-02 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
/105 W

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R 050300Z JUL 77
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 1883
INFO AMEMBASSY SEOUL

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 10/55/77
TAGS: EAID, EFIN, KS
SUBJECT: ADB COLD STORAGE PROJECT (KOREA); REQUEST BY
BORROWER FOR DISPOSAL OF BANK-FINANCED GOODS

REF: (A) MANILA 7130, (B) 69 MANILA 2137

SUMMARY: ADB MANAGEMENT PROPOSES ON NO OBJECTION BASIS
CHANGE IN SCOPE OF SUBJECT LOAN PROJECT (LOAN NO. 10-KOR,
APPROVED MARCH 1969) TO PERMIT SALE BY BORROWER, KOREA COLD
STORAGE CO., OF ITS UNPROFITABLE MUKHO PLANT. PROCEEDS OF
SALE WILL BE USED, IN PART, TO REPAY THAT PORTION OF LOAN
AMOUNT ORIGINALLY UTILIZED FOR EXPANSION OF MUKHO PLANT.
USADB PLANS NO OBJECTION. END SUMMARY.

1. ADB DOC. R64-77 DESCRIBING PROPOSED SALE TO ADDRESSEES
JULY 5.

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2. IN MARCH 1969, ADB BOARD OF DIRECTORS APPROVED \$7 MILLION
LOAN (LOAN NO. 10-KOR) FROM ORDINARY RESOURCES TO KOREA COLD
STORAGE CO. (KCSC) TO FINANCE FOREX COSTS OF COLD
STORAGE PROJECT IN KOREA. KCSC, BOTH BORROWER AND
EXECUTING AGENCY OF PROJECT, IS WHOLLY-OWNED SUBSIDIARY
OF AGRICULTURE AND FISHERY DEVELOPMENT CORP.; ESTABLISHED

BY GOVERNMENT FOR PURPOSES OF DEVELOPING AND PROMOTING INDUSTRIES FOR PROCESSING AND MARKETING OF AGRICULTURAL, FISHERY, AND LIVESTOCK PROJECTS. PROJECT INVOLVED, INTER ALIA: INSTALLATION OF FREEZING, COLD STORAGE AND ICE MAKING FACILITIES IN SEOUL, BUSAN, MOKPO AND MUKHO; PROCUREMENT OF REFRIGERATED TRUCKS, COLD STORAGE BOATS, AND A REFRIGERATED SHIP; AND ESTABLISHMENT OF NEW CENTRAL WHOLESALE MARKET IN SEOUL. MAIN OBJECTIVE WAS TO IMPROVE MARKETING AND DISTRIBUTION OF FISHERY AND CERTAIN AGRICULTURAL PRODUCTS THROUGH ESTABLISHMENT OF FREEZING AND COLD STORAGE FACILITIES.

3. FROM START OF PROJECT IN JULY 1971 UNTIL END-1975, OPERATIONS OF KCSC WERE UNPROFITABLE Owing TO (A) LOW CAPACITY UTILIZATION ON FACILITIES IN SEOUL AS RESULT

OF DELAYS BY SEOUL CITY OFFICIALS IN RELOCATING WHOLESALE MARKETING FACILITIES TO NEW KCSC CENTRAL WHOLESALE MARKET; (B) LOW CAPACITY UTILIZATION OF KCSC'S MUKHO PLANT AS RESULT OF DECLINING CATCH OF AND EXPORT DEMAND FOR SQUID. OVERALL OPERATIONS WERE PROFITABLE IN 1976 AND 1977 FOLLOWING RELOCATION OF WHOLESALE MARKET TO NEW KCSC FACILITY. HOWEVER, CUMULATIVE PROFITS FROM 1976 ON ARE UNLIKELY TO OFFSET CUMULATIVE LOSSES TO 1975 OF WON 1,059 MILLION (US \$2.18 MILLION) UNLESS MEASURES ARE TAKEN TO ELIMINATE STILL UNPROFITABLE LIMITED OFFICIAL USE

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OPERATIONS, INCLUDING THOSE OF MUKHO PLANT.

4. MUKHO PLANT AND ICE-MAKING CAPACITY OF 40 TONS:DAY AND COLD STORAGE CAPACITY OF 750 TONS:DAY WHEN PURCHASED BY KCSC IN 1968 (BEFORE BANK LOAN). AS ORIGINALLY APPROVED BY BANK, PROJECT CALLED FOR EXPANSION OF CAPACITY CITIES TO 100 TONS AND 1,200 TONS FOR ICE-MAKING AND COLD STORAGE, RESPECTIVELY. IN MAY 1971, BANK APPROVED PROJECT REVISION (ADB DOC. IN9-71) WHEREBY PROPOSED EXPANSION WAS SHELFED. INSTEAD, FACILITIES FOR PROCESSING FISH, SQUID AND VEGETABLE WERE INSTALLED. COST OF THESE FACILITIES, FINANCED UNDER BANK LOAN WAS \$49,905.

5. MUKHO PLANT FACILITIES HAVE BEEN GENERALLY UNDER-UTILIZED, Owing NOT ONLY TO AFOREMENTIONED DECLINING SQUID CATCH IN LOCAL WATERS, BUT ALSO TO RECENT DEVELOPMENT OF COMPETITION FROM SPECIALLY CONSTRUCTED SHIPS WITH DEEP FREEZING FACILITIES. IN 1976 FOOD PROCESSING FACILITIES WERE UNDERUTILIZED BY 65 PERCENT, ICE-MAKING FACILITIES BY 75 PERCENT. PLANT OPERATIONS, PROFITABLE DURING 1968-71, HAVE BEEN INCREASINGLY UNPROFITABLE

SINCE THAT TIME. OVERALL KCSC PROFIT OF WON 62 MILLION
IN 1976 OCCURRED DESPITE WON 58 MILLION LOSS IN MUKHO

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FM AMEMBASSY MANILA
TO SECSTATE WASHDC 1884
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FOR NAC AGENCIES

OPERATIONS. FORESEEING LITTLE PROSPECT OF IMPROVEMENT,
MANAGEMENT PROPOSES SALE OF MUKHO PLANT BY PUBLIC TENDER.

6. BOOK VALUE OF MUKHO PLANT, AFTER DEPRECIATION, WAS
WON 192.4 MILLION (US \$397,000) AS OF MARCH 31, 1977.
KCSC, WHICH HAS ALREADY BEEN IN CONTACT WITH SEVERAL
POTENTIAL BUYERS, ESTIMATES THAT WON 200 MILLION (US
\$412,000) CAN BE REALIZED FROM SALE, VALUE OF WHICH WILL
BE OFFICIALLY APPRAISED BY KOREA APPRAISAL BOARD. PRO-
CEEDS WILL BE APPLIED, FIRST, TO REPAYMENT OF OUTSTANDING
PORTION OF LOAN AMOUNT (ABOUT \$35,000) UTILIZED FOR
EXPANSION OF MUKHO PLANT; THE BALANCE TO CAPITAL INVEST-
MENT IN KCSC'S BUSAN PLANT.

7. PROPOSED MEASURE ACCORDS WITH CONTINUING KCSC POLICY
OF DISENGAGING UNPROFITABLE OPERATIONS,
AND DEVOTING PROCEEDS OF SALES TO CAPITAL INVESTMENT IN
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OTHER PROFITABLE LINES. PRESENT EXAMPLE WAS SALE OF REFRIGERATED SHIP APPROVED BY ADB BOARD IN MAY 1977 (REF A AND ADB DOC. R46-77). KCSC FEELS THAT BY SALE OF REFRIGERATED SHIP AND MUKHO PLANT, FINANCIAL POSITION OF COMPANY WILL SUBSTANTIALLY IMPROVE.

8. IN REQUESTING APPROVAL OF PROPOSED SALE, KCSC HAS ASSURED BANK THAT:

A. IT ANTICIPATES NO DIFFICULTIES IN CONCLUDING SALE WITH PRIVATE SECTOR FIRM;

B. IT WILL NOT APPROACH BANK FOR SALE OF ANY OTHER PLANT, MACHINERY AND EQUIPMENT PROCURED, OR FACILITIES FINANCED OUT OF PROCEEDS OF BANK LOAN;

(C) IT WILL IMMEDIATELY REPAY TO BANK OUT OF PROCEEDS OF PROPOSED SALE THAT PORTION OF LOAN AMOUNT UTILIZED FOR PROCUREMENT OF PLANT, MACHINERY AND EQUIPMENT FOR MUKHO PLANT.

9. ADB MANAGEMENT RECOMMENDS APPROVAL OF KCSC REQUEST SUBJECT TO KCSC ASSURANCE PER PARA 8(C) ABOVE. IN ABSENCE OF OBJECTION OR REQUEST FOR DISCUSSION BY COB 15 JULY 1977, PROPOSAL WILL BE DEEMED TO HAVE BEEN ACCEPTED. USADB DOES NOT PLAN TO OBJECT.

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Message Attributes

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